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A Christmas Message

THE Christmas spirit! It finds expression wherever human beings gather. It is present in the great city when, through the dusk of the early midwinter twilight, the lights of the street shine on swiftly moving limousines and on the throngs of hurrying Christmas shoppers. It shines in the faces of men and women. Cheery greetings are passed, and, for an instant, the tension of the business day is relaxed—the voices become softer and more mellow.

In the smaller communities, too, the Christmas spirit finds expression. Greetings are exchanged at front gates as neighbors pass in to the brightly lighted homes awaiting them. In the windows are wreaths of holly, and sleigh-bells sound in the distance. The very air seems surcharged with this spirit of Christmas.

May the cares of the world now slip from your shoulders. May the true spirit of Christmas time now permeate your beings and find in you an instrument of service to bring the spirit of joy and of uplooking to friends who may be bowed in discouragement, in grief, or in despair. Gifts, yes. But the great gift of comradeship, of good fellowship, do not forget. It means so much, and it costs so little.

To you, friends and students, at this Christmas time, we bring the season's greetings. May the attainments of the year, now passing on, bring the satisfaction which comes to those who labor well in a worthy cause. May you see the realization of many of your fond hopes and desires. May you wear the crown of success with true humility, and may you stand against the buffets of an untoward fate with a faith that never wavers, and with a strength that never grows less. May this Christmas season bring you joy in accomplishment and confidence in future achievement. May the spirit of good-will toward others find permanent lodgment in your heart and expression in your acts. This is our Christmas message.

1034

Preparation for Executive Responsibilities

Address Delivered at Walsh Institute, Detroit, by Richard FitzGerald, M.E., C.P.A.; Graduate, Pace Institute; Manager, Detroit Office, Lybrand, Ross Bros. & Montgomery

AN "executive" is a person active or skilled in the act, process, or manner of doing things. In the sense that we are using the term, it means one who coördinates, harmonizes, and makes effective the individuals, experts, units, sections, or departments; in other words, the men and materials comprising an organization, to the end that it perform the purposes for which it was established.

Growth of Organization

To understand and appreciate a subject, one must go back to its beginnings; and, as the evolution of the executive is bound up with industrial organization, it is necessary to review the growth of our present economic system.

Primitive Conditions

In the earliest recorded history of mankind, we find an agricultural and pastoral people with simple tastes and simple needs, living in family groups. From the land, the family produced food, the materials from which clothing and shelter were made, and the means of transportation—in the shape of crude wagons constructed from timber, and drawn by oxen, bred and raised on the family lands.

Tribal System

Primarily, for purposes of protection and also for religious and social purposes, families in time organized into tribes, and selected a tribal leader, or chief, who built for himself a castle on the crest of the highest hill in the neighborhood, surrounding himself with soldiers and retainers who did no work on the land, but devoted their attention to police work, and to such fighting as was necessary to protect the tribe, with perhaps more or less of unnecessary aggression against neighboring tribes, just as we have unnecessary wars in our times.

Neither the chief nor his retainers did any productive work, and it was necessary for those of the tribe who did to produce, not alone enough for their own maintenance, but also to provide for the maintenance of the chief and his soldiers and retainers. To one family was assigned the work of providing them with shoes; to another, that of providing them with clothing; to another, that of providing them with meat; etc.

We may consider this the first step toward our modern industrial system. A class had arisen which was maintained out of a surplus produced by the workers—this class affording, in exchange for its maintenance, protection and security for life and property. For the first time in the world's history, an organized effort—somewhat crude in form, it is true—was made to produce a surplus over the needs of the producer.

The Artisan

From this beginning, certain of the workers became specialists and devoted their entire time to producing shoes, cloth, clothing, furniture, vehicles, etc. The next great step was when these artisans left the land and moved close to the castle, establishing a little colony around it. This was the beginning of the great movement from the land to the cities, which still continues and which some people deplore, but which the economist knows to be inevitable. Gradually, the people on the land in bringing cattle on the hoof, hides, grain, grapes, etc., to the chief, as compensation for his protection, also brought, out of their surplus, sufficient for the maintenance of the little colony of artisans that surrounded the castle, and in exchange received shoes, clothing, wine, and other manufactured articles.

This was the second great step toward modern industrial organization. It marked the crude beginning of the division of labor. The worker on the land no longer fabricated his raw materials for the use of himself and his family. He brought the crude hides to the artisan who in turn fashioned them into shoes and exchanged these shoes for food, clothing, raw materials, etc. It marked the crude beginning of trade and barter, and also of our great modern cities.

Money

It was quite natural that from time to time there should be an excess of supply over demand; and no doubt, occasionally, the weaver, the tailor, the

LEADING ARTICLES FOR DECEMBER

tanner, and the shoemaker had an excess of merchandise on hand, and probably went hungry because it could not be exchanged for food supplies. Under such circumstances, it is not difficult to imagine that the artisan of one tribe might have endeavored to exchange his excess of cloth for the excess flour in the hands of the artisan of another tribe. It is conceivable that foreign trade had its inception in this manner.

At a later period, many chieftains combined under a great chieftain, or king, and undertook military operations in distant lands. In this way, the inhabitants of the cold regions of Northern Europe became acquainted with the people who lived in the semi-tropical countries adjacent to the Mediterranean; the skilful artisans of the Hanseatic towns came to exchange their finely manufactured wares for the spices, luscious fruits, wines, and oils of the Islands of the Aegean Sea; and the people of Britain exchanged tin from the Cornish mines for the silks and amber that the Phoenician adventurers brought from their homes on the shores of the Levant.

The business of exchanging a bale of silk for a certain number of pairs of shoes, or cattle on the hoof for a certain number of bales of cloth, was not a very pliable method of exchange; so people resorted to the expedient of exchanging one or other of the precious metals—gold and silver—for what they required. These metals became, and are now, the measure of the labor expended in converting the raw products of the earth to the form in which they are available for the use of man.

The growth of domestic and foreign trade, and the enormous volume of trade necessitating a medium of exchange, early gave rise to acceptances, bills of exchange, promissory notes, and other forms of negotiable instruments, in practically the form we know them. These are based on the credit and good faith of individuals, of banking organizations, and sometimes of nations, and the hope and expectation that they will be redeemed at some future time in gold or the equivalent thereof.

Summary—beginning Middle Ages

So we come to the Middle Ages with an economic system in which had already developed: (1) Organizations for defense (feudal system); (2) The skilled artisan; (3) Cities; (4) Money and exchange.

Capitalists

During the Middle Ages, another great class arose—the merchant princes and bankers who purchased the wares of the artisans, transported them to distant cities or over seas to other lands, and sold them at a profit. This class financed the artisans and found markets for their wares; they owned immense warehouses, fleets of sailing ships, camel trains, and the best and fleetest means of transportation the world then afforded. They controlled markets, transportation, currency, and the credit of the world as it then was.

Summary—Beginning Industrial Revolution

Conditions at the beginning of the nineteenth century were practically, from an economic standpoint, the same as they had been throughout the Middle Ages. The artisans were better trained, each trade had developed a most exclusive guild or trade union, a rigid apprenticeship was enforced, and restrictions were imposed on those who sought to enter a trade. This tended to limit the number of artisans, and, with the limitation of artisans, there was, of course, a limitation of production. Artisans had gained concessions from the state, and their guilds operated under charters granted by emperors, kings, princes, or states. The power of the great nobles or chieftains was broken, the feudal system had passed away, but people still led very simple lives, and were satisfied with the bare necessities of life. Luxuries were beyond the reach of the common people and enjoyed only by the great nobles and merchant princes.

The one difference was, that capitalism as we know it had taken the place of feudalism. Merchant princes and bankers were courted by emperors and kings, and were in control of the industrial system as it then existed. There were no factories as we understand the term. Here and there, shops for the weaving of cloth, the carding of wool, etc., might each employ a score of artisans, but, in general, the work was done by an artisan and his one or two apprentices. He bought the raw materials from the farmers in the neighborhood, sold them his manufactured wares, the excess of which he marketed through the merchant prince of his locality. The history of these times is very interesting, and I wish I could go into it at greater length here, but there is not the time, and, moreover, it is not material to the points I wish to make at this time.

Machinery

The early years of the nineteenth century marked the beginning of what is known as the industrial revolution. Great minds were applied to the problems of manufacturing, and machine after machine was invented to perform, by the hundreds and thousands, operations which had been performed laboriously, unit by unit, by the hands of the artisan. The great struggle the guilds and trade unions put up against the introduction and use of machinery, and how machinery finally won, is a most interesting story.

Great philosophers, divines, and economists of that age arrayed themselves on the side of the artisan, and the dire consequences that were predicted if machinery were introduced to take "bread out of the mouths of honest tradesmen" furnish amusing reading for this generation. You should all read of these times—they will give you a more complete understanding of the age in which we live. But to continue: invention followed invention, and, as an example, the making of shoes, from being one trade and a function performed by a single individual, finally resolved itself into a series of one hundred and twenty-two operations, performed on several suitable types of machines. The condition developed in every industry, until in our time, the problems of finance, production, and distribution are extremely complex.

Transportation

The next great factor was the inventions pertaining to, and development of, transportation—the steam-engine, steamship, and automobile. Voyages to the most distant points on sea and land have become matters of schedule, where the time of arrival and departure may be regulated to the hour. The shipment of merchandise to a foreign country instead of being a "venture," as it was called before the industrial revolution, has become a certainty, or as reasonably so as anything on this earth may be. The people at the extreme of the earth are our neighbors, and the wares of Brockton, Mass., are on the shelves of the stores in Buenos Aires, Paris, Shanghai, and Melbourne, while the Ford automobile is to be found recorded on the license register of Bangkok and throughout the entire world.

Communication

Concurrent with the development of transportation, the means of communication were perfected. The mail service was organized and cheap postage rates afforded. Naturally, with the improvement in the means of transportation, letters were conveyed to their destination and delivered rapidly. The introduction of the telegraph and the laying of submarine cables made it possible for us to flash ideas to distant points, and under seas to foreign lands, with the speed of light. The telephone makes it possible for us to conduct conversations over thousands of miles of land, practically instantaneously.

Summary—Our Time

The tribal chieftain, his castle, and political system have crumbled to dust, but the little economic structure that grew on the hillside under his battlements still remains. It is the prototype of our great, modern, industrial system, and, through the changes the ages have brought, the simple beginnings are still plainly discernible. My lord's artisan required: (1) raw materials; (2) tools; (3) finished merchandise to exchange for raw materials; (4) a market for finished merchandise.

Is there any difference between these requirements and those of a modern industrial organization? It must have: (1) capital; (a) a plant, (b) raw materials, (c) cash to exchange for raw material; (2) a market for its products.

The only difference is in magnitude and volume of transactions, width of market, and form of organization.

Modern, Industrial Organization

The individual artisan or the master tradesman, prior to the industrial revolution, had a comparatively easy task; he did not have to seek very hard for his raw materials; a market for his wares was easily found, and he could encompass his entire shop within his physical vision. The introduction of machinery resulted in a minute division of labor; the production of, say, cloth, instead of being one trade, became a series of standard operations, and by the segregation of such as required little or no skill in performance, and the relegation of these to unskilled labor acting as tenders of more or less automatic machinery, it became possible to produce in huge quantities at a low production cost.

In the meantime, population had increased considerably, large cities had grown up, and classes had arisen, such as lawyers, doctors, engineers, those engaged in the work of government, transportation and communication, who did not work in direct production, but who were necessary to the welfare of the state and had to be maintained from surplus production. Another result of the introduction of machinery was the giving of more leisure to the working classes. They did not have to work as many hours a day as formerly, and had time to give to the finer things of life—the arts, science, and education. This naturally resulted in a demand for better houses, clothing, food, and furniture. Things that were formerly considered luxuries, only within the reach of the rich, were to be found in the possession and in the household of the common people.

From the industrial revolution to the present time, life has in every way become more comfortable and bearable. The reduction in the cost of production wrought by the use of machinery made it possible for people of moderate means to purchase things that they formerly could not afford. This alone resulted in a widening of markets and a stimulation of industry without precedent.

There was another factor which had also much to do with the widening of the markets—the improvements that had been made in transportation and communication. Industries were located in districts or sections of the country adjacent to raw materials, power, skilled labor, etc. The shoe industry settled in Massachusetts, the rubber industry in Ohio, the automotive industry in Detroit, etc. These industries found their customers throughout the entire world. No longer did the personal relation of early days exist with customers; competition became more and more intense, and goods were bought and sold on the basis of quality and price.

Salesmanship—Advertising

The specialist in markets was born in the fiery furnace of competition: the man who could create a desire in the minds of people for a certain brand of ware by broadcasting its virtues through the great modern engines of publicity—the advertising expert, and the man who could deal directly with customers and induce them to buy his wares—the expert in salesmanship. These two classes of experts are trained in the development of markets and need know nothing of the other branches of industry.

Manufacturing

As it is the function of the market expert to dispose of the wares produced by the manufacturing department, so is it the function of this department to produce wares in quantities and of suitable quality to fill the orders taken by the former. It must comprise within itself the necessary skill to operate its machinery, train its unskilled labor to the use of this machinery, and to produce merchandise to the ultimate limits of its capacity. It may, and usually does, comprise within itself a number of subdepartments and executives, all reporting to the general factory executive who is an expert in the science and art of manufacturing.

Raw Materials

The business of procuring raw materials is a highly specialized work in our modern industrial system, and is handled by a purchasing agent who has made it his life-work and specialty to know materials, quality, prices, and everything about them that might prove helpful to him in his work. His duty consists of securing materials in quantities sufficient to keep the manufacturing end of the business in effective operation, of suitable quality, and at the lowest prevailing price.

Summary

We have, therefore, the great, modern, industrial organization marketing its wares in far-flung and ever-widening markets, divided into three essential functions: purchasing, manufacturing, merchandizing. Each is a separate department, a little world unto itself, under the leadership of a highly trained specialist.

Profit

Modern industrial organizations have for their primary object the securing of profit. Stockholders contribute their money for the construction of factories and facilities and to supply working capital in the hope of securing dividends; and, as you know, a great deal of capital is required to enable one to engage in business in this stage of our economic development. Now the Soviet system has not been a success in Russia, and there is no reason to believe that it could ever be anywhere else; so, if we left the business of securing a profit to a committee composed of our three specialists in purchasing, manufacturing, and merchandizing, we should not get anywhere, since each would consider only his own end of the business, and no one would have a sufficient knowledge of the work of another to afford or secure the necessary coördination and coöperation.

General Administration

Now the possibility of securing a profit might be destroyed by one or all of the foregoing department heads. The purchasing agent might buy at too high a price; he might buy materials of inferior quality or that are entirely unsuitable; he might tie up the manufacturing and merchandizing departments by failing to secure delivery of an adequate supply of materials and supplies; he might, on the other hand, purchase materials and supplies in excess of the needs of the business, and in this way tie up large sums of money, the interest on which would, in a large measure, offset any profit that might be secured. He might speculate in raw materials and cause losses in merchandizing unconnected with the plain purposes of the industry.

The factory manager might induce a loss by failing to utilize his labor and facilities to their limits of productivity; by destroying materials in process of manufacture; by manufacturing in excess of sales requirements, and in this way investing large sums of money, the interest on which would substantially offset any profit that might be realized.

The merchandizing department might cause losses by failing to keep the factory manager informed as to market requirements, quantity, and quality; by selling at a price below cost; by stimulating markets; by excessive advertising and selling beyond the capacity of the manufacturing department. It is apparent from this that the purchasing, manufacturing, and merchandizing departments of a business must be coöordinated under the direction and leadership of a specialist of still another kind—the general administrator versed in the art of securing profit.

Education of General Executive

The general executive, as distinct from the technical executive, must have peculiar knowledge and equipment. He must understand modern industrial organization, the place of each department in the profit-making scheme; he must know finance, and above everything, accountancy.

Accountancy

Accountancy is the language of business, it is the means of measuring the results of enterprise and the worth of men and materials in the effort toward results.

Knowledge

A general executive must know the following subjects, which are the basis of our economic structure:

Law. He must know the law, so that he may keep the relations of his organization and his subordinates in accord with the rules of action formulated by time, experience, and the state, for the guidance of all.

Finance. As money is the measure of industrial results, he must know finance—the operations of money and exchange.

Economics. He must know the unchanging laws of economics, which may be stayed for a time by man, but which eventually assert themselves. Those who in the organization, conception, or operation of an industry violate any of these laws eventually suffer for it.

Bookkeeping. He must understand the principles of record keeping and bookkeeping, so that he may see to it that the history and results of the business are properly recorded, and so that he may be able to read these results and understand their significance himself.

General information. He must know industrial history, for we are but an evolution of all the things that happened from the beginning to our own times; and without a foundation of this knowledge, it is not possible to have a broad understanding or vision of our economic structure. He must have a knowledge of men and affairs, so that he may be able to consider and apply evidence offered by experts.

Duties

It is the duty of the general executive to see to it that the experts perform their functions in accordance with the general scheme to coördinate the work of departments; to lay down a general plan to the end that, within the financial limits of the enterprise, and making due allowance for market conditions—(1) the maximum quantity of merchandise may be sold; (2) manufacturing may be governed by the sales requirements, and goods fabricated only as required; (3) purchases may be made in accordance with manufacturing requirements.

Budget

A general executive should be competent to formulate a budget, reducing in advance, to figures, the financial results aimed at over a given period, showing a project balance sheet and income and expense statement built up from a detailed projection of the results in each department. There is no reason why this should not be done. A business operating without a coördinated financial plan is like an office building in course of construction without architectural plans. As the aim is profit and the results depend on many individuals, each should be furnished with a concept of his responsibility and a statement of the results he must produce, in order to achieve the desired general result.

The Story of the Protest

By Charles T. Clayton, LL. B., of the Law Faculty, Pace Institute, Washington

CENTURIES ago, the first thing a wise sea-captain did, after his storm-torn vessel had been securely moored in some safe harbor far from the home port, was to hie him to the consul of his country, or if no consul was in the port, then before that universally known public officer, the notary; and then, on his oath, he proceeded to establish by testimony a record of the mishaps and misadventures of the voyage, as his personal protection before his owners and the owners of his affreightment, against any charge of negligence and damage to vessel and lading. Because this record was *ad testificamentum*, or a record of testimony, made as advance evidence against a possible need, it was called his "protest."

Early Use of Letters of Credit

Early commerce, in Western Europe and on the Mediterranean, was almost entirely confined to sea trading; but in time, the seaports developed trading communities which began to give credit. The Lombard traders—dealers in the vicinity of Lombard Street, in London—following the Italian-Jewish invention of letters of credit (forerunners of bills of exchange), began to lend money on notes and to take agreements of security. Credit, as an instrument of commerce, was a new thing. It had no defined customs; no rules. The English courts knew the mortgage and had a scanty idea of the law of bailments, borrowed from the Romans; but there was no commercial law as we know it, and no simple way to hold the indorser. The bill of exchange brought about the device of endorsement itself, traders selling letters to each other, or using them in payment for goods, and writing their names on them to identify the transfer. When a letter was *dishonored*—expressive term—parties whose names appeared on the letter were given prompt notice; and the custom grew up among the merchant traders to hold an indorser liable, if he was given notice immediately after the dishonor. But the courts made a great difficulty. Their rules for proving notice were clumsy, costly, and slow. Some genius thought of the ancient seamen's *protest*, the means for preparing and perpetuating evidence against the time of need to protect one against undeserved liability—and lo, the protest of modern commerce was born.

The law of notice remained exactly as before: that every one who had touched the bill of exchange and indorsed his name upon it must be given notice in case of dishonor, or he would not be liable to make the bill good; but to that law was added the device of protest, to prove that notice had been properly given. The adoption of the protest involved only a slight change from the sea-captain's device. The merchant called in a notary, who made the formal presentation on the day the bill fell due, and made a memorandum of such facts—a procedure that was called *noting the protest*—and then the notices were sent. Thereafter—sometimes long after, in one case in Scotland, fifteen years after—the notary filled out his formal instrument of protest, written on a copy of the dishonored bill, and reciting in stereotyped phrases the authority of the notary, the holding of the bill, its presentation for acceptance or payment and the dishonor, and then "solemnly protested, and doth hereby protest, against the drawer, and each indorser, for all costs, damages, exchange, re-exchange, principal, interest and claim, whether at law or in equity, suffered or to be suffered by the holder thereof." This instrument, signed and sealed by the notary, might, like the ancient *protestatum*, be offered in any court in Christendom in proof of the facts recited, to save harmless the holder of the dishonored bill as against the drawer or any indorser.

Seal of Notary Not Essential

And since there might not always be a notary in the market town, the custom grew up among the merchants that, when such an officer was not to be had, any respectable member of the community might, taking two competent witnesses, perform the same solemn acts and make the same attestation; and the certificate, while not admissible to the same extent as the certificate of a notary having a seal, might be proved by a witness and then be competent testimony in behalf of the holder of the bill.

It will be noticed, however, that this romance of commercial law has so far dealt only with the bill of exchange, the only credit instrument then used by the traders on and by the sea. And the England of Elizabeth and James was a new land, developing from an agricultural nation to a trading country, building up manufacturing—taking over the weaving of the Flemish, the iron-making of the Walloons, the steel-melting of Bordeaux, and the tapestries of Normandy. The English merchants must borrow money; they must give security; and the example of the bill of exchange was before them. So it was a short and easy step to the development of the promissory note as a circulating medium of credit.

Then came the indorser on the promissory note, to whom notice of default must be given by the holder; and there, with a stubbornness which has not yet relaxed its opposition, stood the rule that the use of the protest as conclusive proof of dishonor must be confined to the foreign bill of exchange, to prevent the use of this simple and easy mode of proof when default was made in payment of the promissory note.

The same difficulty blocked use of the protest to prove dishonor of an inland bill of exchange, or of a check, which is a form of inland bill of exchange; and the rules hindered commerce in the new United States as well, especially in earlier days.

Bills of Exchange as Between States—Foreign

Finley and Van Lear of Baltimore, Maryland, drew on Stephen Dever at New Orleans, in favor of Roswell L. Colt of Baltimore. Colt sold the draft to William S. Buckner of New York. The draft was dishonored; and Buckner sued the drawers in the Federal Circuit Court, under a statute empowering Federal courts to entertain suits to recover the contents of foreign bills of exchange. The defendants denied that this was a foreign bill of exchange. The judges of the Circuit Court certified the question to the Supreme Court of the United States. The defense argued that "foreign countries" and "foreign bills" are correlative expressions; that no sister state is foreign to any other state or to the Union; that the statute conferring jurisdiction to entertain suits of foreign bills must, therefore, have been intended to extend to aliens the benefit of the national tribunals, leaving to citizens of the states their resort to the courts of the several states. But the justices of the Supreme Court were all of opinion that, while for all national purposes embraced by the Federal Constitution, the states and the citizens thereof are one, united by the same authority and governed by the same laws, in all other respects, the states are necessarily foreign and independent, their constitutions and forms of government, although republican, being altogether different, as are their laws and institutions. So they ruled that bills of exchange drawn in one state on another state are foreign bills; and that decision made it possible to protest such bills and thus prove notice sent to bind the drawer and indorsers. Still, this broadened rule did not help with dishonored checks and notes. The common law prescribed methods for proving notice: when a promissory note fell due, it was presented at the place of payment, and if not taken up, the holder must send immediate notice to all indorsers. When suit was brought, he must procure the attendance of witnesses to prove the demand, refusal, or default, and notice. He must be prepared to show due diligence in his efforts to communicate notice (*American Nat. Bank* v. *Junk Bros.*, 94 Tenn. 624). In many cases, such holders followed the established practice relating to foreign bills of exchange, and had their notes, checks, and inland bills protested, only to be discomfitted upon suit by finding that the protest could not be used to prove notice, and they could not then prove notice and recover against the endorsers (2 Rob. Pr. 121).

An English Statute

In England, a statute was passed in William III's time (9 and 10 William III, ch. 17), which was later amended (3 and 4 Anne, ch. 9), providing for protest of inland bills and for recovery of interest and damages due to the dishonor. The English courts held these statutes to give an additional remedy to enable the holder of a dishonored bill to have interest and damages, which he could not recover at common law, but that the common-law proof by evidence of notice sent, was still available (2 Lord Raym., 992). This statute was copied, or was the cause of similar statutes being passed in many of the states—statutes that gave optional remedies to holders of notes, checks, and inland bills. About twenty-five years ago, the Uniform Negotiable Instruments Law was passed, which repeats the alternative remedies. At the present time, in most of our states, the holder of negotiable paper has the option, when a maker defaults, either to send notices of non-payment himself (which he may do in any manner he sees fit, even by telephone, messenger, or any way to inform the indorsers), and then in case of suit to prove the sending of the notices by witness, or to call in a notary and have the notices sent, after presentation and formal noting, the protest being prepared exactly as the foreign bill of exchange is protested; then, by producing this document of protest in court, he can quickly establish the dishonor and the vital notice which render all secondary parties liable to him.

Alternative Rule Held Valid

This alternative rule has been declared by the Supreme Court of the United States, in the case of *Nicholls* v. *Webb*, 8 Wheaton 326, which came up from Tennessee. Suit was brought on a promissory note which had been protested by a notary public who died before the trial. The laws of Tennessee contained no statute providing for legal protest of such a note, but the evidence showed that it was the custom of merchants to protest promissory notes. The Court, after stating that in strictness of law the protest could not be an official act, nor could the protest be evidence of itself, in chief, to prove the fact of the demand,

(Continued on Page 9)

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A Code for the Executive

THE executive secures results through the work of others. If the work is good, the credit is his; if the work is unsatisfactory, his is the blame.

The problem of the executive is to allot work with care, to hold those under him responsible for the specific performance of assigned duties, and to make certain that the organized effort which he directs operates for the good of the organization as a whole.

The executive gives directions which must be followed, if the proper work results are to be secured. His subordinates must work with him, rather than for him. If his directions are not cheerfully followed, if he does not inspire respect on the part of his subordinates, he speedily finds that his efforts at management are fraught with difficulties, and that the result leaves much to be desired. His problem, then, in a word, is to get his people to work with him, in order that the maximum work result may be secured with the minimum of effort on the part of both the executive and his subordinates.

On a tablet in the barracks of the United States Military Academy at West Point is an extract of an address delivered to the Corps of Cadets by Major General John N. Schofield, on August 11, 1879. These words of Major General Schofield addressed to the future officers of the United States Army more than forty years ago, express so aptly and succinctly the philosophy of getting other people to do what you wish them to do that they may be studied with profit by every business man or woman.

Below we print the extract of Major General Schofield's address as it appears on the Tablet in the barracks at West Point: "The discipline which makes the soldiers of a free country reliable in battle is not to be gained by harsh or tyrannical treatment. On the contrary, such treatment is far more likely to destroy than to make an army. It is possible to impart instruction and give commands in such a manner, and in such tone of voice, as to inspire in the soldier no feeling but an intense desire to obey, while the opposite manner and tone of voice cannot fail to excite strong resentment and a desire to disobey. The one mode or the other of dealing with subordinates springs from a corresponding spirit in the breast of the commander. He who feels the respect which is due to others cannot fail to inspire in them regard for himself, while he who feels, and hence manifests, disrespect toward others, especially his inferiors, cannot fail to inspire hatred against himself."

Look at the Rubber Band

THE other day I needed rubber bands to put around some papers. I reached in my desk and found a box that had never been opened. I recalled, though, putting the box in my desk several months before.

When I tried to stretch the first band around my papers, it broke immediately. Two or three others did the same thing. I looked at the bands and found that the rubber was black and brittle—lifeless, in fact. These bands had never been used, but still, they were useless. They weren't half as good as the old band that I had used daily around my check-book for the past six weeks. Likewise, an automobile tire that is left in the garage for several months, unused, deteriorates with amazing rapidity.

A personal ability which is not used for a period deteriorates in much the same manner. The tennis player who drops out of the game for a season finds that it takes him some time to get back into his former stride. The public speaker who has been away from the platform for a year or two frequently finds himself facing his audience with diffidence. The facility which you may have in adding long columns of figures, or in operating a typewriter, does not become greater while you are not exercising it.

Use! That's the secret. Use the rubber bands! Keep the personal ability in action!

Study the Editorials

STUDY the editorial columns of the great newspapers for their English. After reading an editorial in your favorite paper for its content, read it through again for its style. Notice the length of the sentences, and how they are put together. Study the paragraphing, and the various ways in which the paragraphs are developed. Watch the punctuation and the choice of words.

This habit will help you in your own writing and speaking. Suppose that you have a tendency to dictate sentences that are too long, and that are clumsy and ineffective because they are too long. Would not a study of these few sentences, taken from an editorial in a recent issue of the New York *Evening Post*, be of help? "There has been more than one rumor that Americans were tired of rushing. Nothing, however, came up to justify such a report. The rush went on." Notice the simplicity of the style, the length of the sentences, the choice of words.

The style of the editorial column is the style of to-day at its best. For this reason, it merits careful study on the part of the man who is sincerely desirous of writing and speaking more effectively.

The Story of the Protest

(Continued from Page 7)

and, that, if the notary himself were living, the plaintiff would be required to produce the notary in court to testify to his making demand and sending notices, *held* that, in view of the established practice of protesting such paper, the fact that the notary kept an office register showing that he made the demand and sent the notices, to which his daughter could attest as his invariable practice and record, and that, if secondary evidence could not be used in such cases, commerce would be seriously impeded, the protest should be admitted as secondary evidence, in the absence of the notary who made it.

The protest is now, therefore, thoroughly established as the completed means of proof that may be employed to establish demand, default, and notice to charge endorsers, not only respecting foreign bills of exchange, which under the decision in *Finley* v. *Buckner* include bills drawn in one state on another state, but also as to promissory notes, bills drawn by a citizen in one state on another citizen of the same state, and checks, with the right of alternative proof at the option of the holder for all negotiable paper except foreign bills of exchange.

But—why is it that the protest is the *only* means of proof of dishonor for the foreign bill of exchange? If proof can be given under the common law for these other obligations, why not for the foreign bill? The answer is found largely in the history of the development of the protest, which we have seen. The foreign bill was originally actually *foreign;* the bill matured in a different country from the land it was drawn in; and to allow one litigant to bring witnesses, and another to rely on the seal and signature of a court officer—the notary—would confuse proof needlessly. So from the beginning, the protest was the only admissible means to prove dishonor of such bills. But the other instruments, being of local character, grew up with the common-law evidence to establish them, and took on the more convenient use of the protest through experience and imbedded usage, thus retaining the right to give notice and prove it independently, and adding the right to adopt the imported method of proof. The protest is only another excellent example of the way the Anglo-Saxon races develop their laws—by seizing upon and adding improvements as they find them, and thus building up their system—not "by patches," as Wells accuses them, but rather as the coral grows, by adding a grain here and a grain there, until the rugged structure emerges from the waves, solid, impermeable, secure.

Writing a Composition

WRITING compositions is the bane of many a schoolboy's existence. Yet, as the schoolboy approaches maturity, and begins to think rather definitely of filling some place in the world of business, he realizes the absolute necessity of being able to express himself effectively, not only in speech, but also in writing. After entering business, he sees all around him, in different form, the compositions which gave him trouble as a lad—letters, reports, investigations, and the like. And he realizes that if he would be successful, he can not avoid the preparation of these business documents—compositions, if you will.

"Writing a Composition," which we have pleasure in reproducing below, was written by Edward Talvensaari, a student in the Pace Standardized Course in English, at Pace Institute, New York. The article in question was prepared by Mr. Talvensaari in answer to one of the quizzes in the English Course. Because of its value to business men and women, who are continually confronted with problems of written expression, we have pleasure in reproducing it herewith.

"WRITING A COMPOSITION"

In writing a composition, words are combined to make complete sentences; sentences, in turn, are combined into paragraphs; and paragraphs, finally, are combined to make the complete composition. Before sentences and paragraphs can be combined into a composition, it is, of course, necessary to have something to write about, for without a subject tereh can be no composition.

The material for a composition may come from one or more of three sources—reading, imagination, and experience. Information through reading is obtained by a study of the writings of others. In modern libraries books on all subjects may be found. Information through imagination comes through the creations of one's own mind. It is imagination that furnishes the material for most of the fiction that is written. Information through experience is acquired by observation during the performance of one's daily tasks and by a study of things as they actually exist. This is probably the most fruitful source of information.

The material is usually gathered in the form of rough notes, and whether it is acquired by reading, by observation, or by experience, it must be carefully reviewed, as, in the gathering process, more information is obtained than is actually required. It is necessary, therefore, to discard unessential matter. The material that is to be used should then be arranged in a logical order, usually in an outline—an order that will enable the composer to develop his composition from beginning to end in the most natural way. When this is done, the writer is in position to start the difficult work of actually writing the composition.

In writing the composition, the subject should be developed in such a way that the reader's interest will be sustained from sentence to sentence and from paragraph to paragraph throughout the entire composition. This development requires clearness of expression and a steady and consistent building up of the subject, step by step, one thing at a time. The reader must be carried along smoothly, and he should not be wearied by long discussions of unimportant details. Each sentence should naturally follow and add to the thought of the preceding sentence, and each paragraph should likewise naturally connect with and add to the preceding paragraph. The sentences should be varied in length and type. They should be emphatic, and, when read aloud, should have a pleasing effect upon the ear. It is only by closely adhering to the rhetorical principles of unity, proportion, coherence, emphasis, and elegance that these results can be secured. Even then, many revisions may be necessary before you are satisfied with the result.

In writing a composition, therefore, the material is acquired by reading, by imagination, and by experience. From the material so acquired, the unessential material must be discarded, and the essential should be arranged, in an outline, in the order in which the composition is to be developed. The essential material is then developed into the complete composition by combining, in accordance with rhetorical principles, words into sentences, sentences into paragraphs, and paragraphs into the composition as a whole.

WOMEN are becoming more and more active in professional Accountancy practice in England. At the present time, it is reported that there are approximately fifty women members of the London Association of Accountants.

Letters of Credit

THE subject of "Letters of Credit" is one that has many sides, and the procedure in connection with letters of credit may differ somewhat with each bank. Only a general outline of their use will, therefore, be given at this time.

Letters of credit are of two general kinds—traveler's letter of credit and commercial letter of credit. A person obtains a traveler's letter of credit by going to a bank, an express company, or other responsible organization with banking connections abroad, and by making a specific purchase of the letter of credit. The letter of credit is merely a form addressed to the issuing bank's correspondents abroad authorizing such correspondents to pay to the holder of the letter of credit certain sums of money. For example, a tourist may buy a $10,000.00 letter of credit at a cost of $10,000.00, plus a small commission or fee.

On his arrival abroad, he would present the letter of credit to the bank's foreign correspondent, with the request for possibly the foreign equivalent of $1,000.00. After proper identification, the bank's foreign correspondent would furnish the tourist the necessary funds, and would enter on the letter of credit the amount furnished. The traveler would receipt on the letter of credit for the amount received. At the time he receives the letter of credit from the issuing bank, he is required to execute a specimen signature on the letter of credit and the signature he executes at the time he receives the funds is compared with the specimen signature.

The operation would be repeated with each withdrawal of funds until the amount stated on the letter of credit has been entirely withdrawn. At that time, the bank's foreign correspondent making the final payment would take up the letter of credit and would transmit it to the American bank which had issued it in the first instance.

Commercial Letter of Credit

The commercial letter of credit is somewhat different, and usually is used in contemplation of a specific transaction or set of transactions. The following illustration will explain the matter:

An American merchant enters into negotiations with a foreign merchant for the purchase of goods. The foreign merchant is unwilling to sell the goods on the credit of the American merchant, but demands what is practically cash on delivery of the goods to the vessel. The American merchant, therefore, goes to his bank and requests his bank to make arrangements with a foreign bank for the foreign bank to honor the foreign merchant's sight draft. Certain conditions may be attached, such as the requirement that the draft must be accompanied by shipping documents properly made up. This notice may be oral or it may be in writing. In so far as the relation between the foreign bank and the foreign shipper is concerned, the transaction is known as a "cash credit"—that is, the extension of a credit by the foreign bank to the foreign shipper to be taken up by a cash payment. If the notice is in writing, the instrument is sometimes called a "commercial letter of credit," although this term is by custom more often reserved for another type of credit which will be considered. The notice which the foreign bank receives from the American bank is known as a "letter of credit" or "bank letter of credit."

On the basis of the cash credit, the foreign merchant delivers the goods to the steamship company, takes the shipping documents to the foreign bank, draws a sight draft on the foreign bank, and the foreign bank pays the sight draft, taking up the shipping documents. It then sends the shipping documents to the American bank and charges the American bank with the amount it has paid for the American bank's account.

The American bank, meanwhile, has made arrangements with the American merchant whereby the former turns the shipping documents over to the American merchant, so that he may get the goods on their arrival on this side, the American merchant either reimbursing the bank immediately, or agreeing to pay for the goods at a future date. In some instances, the American merchant will agree to pay the bank out of the proceeds of the sale of the specific goods.

The illustration which has been given presupposes that the foreign merchant demands cash. Frequently, however, he will be satisfied if the foreign bank will accept his draft, drawn on it at 30, 60, or 90 days, or even longer usage. Under such circumstances, the foreign bank issues formal written advice to the foreign shipper that it will honor his time draft. Such advice is in the same general form as the advice of the cash credit, but is known by the term "commercial letter of credit."

Both cash credits and commercial letters of credit may be "unconfirmed" or "revocable." When a credit of this nature is issued, the foreign shipper receives notice that the credit may be revoked at any time by any of the parties to the transaction. On the other hand, the credit may be "confirmed" or "irrevocable." Under such circumstances, the credit can be canceled only with the consent of all parties to the transaction, including the purchaser, each bank, and the shipper.

Circular Letter of Credit

In some instances, the bank letter of credit or commercial letter of credit is issued as a "circular letter of credit." The "circular letter of credit" is different from the ordinary commercial letter of credit, and more nearly approaches the traveler's letter of credit first described. Thus, the American merchant would go to his bank and make arrangements for his bank to issue a "circular commercial letter of credit." This letter would be addressed to the American bank's foreign correspondents, but instead of instructing them to pay stated sums of cash over to the American merchant, it instructs them to honor drafts drawn by the American merchant or by persons whom the American merchant may designate. The foreign bank would honor such documents and would charge the American bank. It is evident, therefore, that the "circular commercial letter of credit" is practically the same as the traveler's letter of credit. It has, however, this difference: the traveler's letter of credit usually is paid for by the purchaser at once; the "circular commercial letter of credit" may be paid for by the American merchant at the time of its issuance, or, as is more frequently the case, the bank will issue the "circular commercial letter of credit" on the American merchant's promise to repay the bank at a stated time.

Employees Study Accountancy

THE TECH OWL, the official publication of the Educational Department of the Westinghouse Electric and Manufacturing Company, East Pittsburgh, Pa., has this to say in a recent issue about classes in Accountancy conducted for employees of the Westinghouse Company. These classes are held under the jurisdiction of the Pittsburgh School of Accountancy, which conducts the Pace Standardized Courses in Accountancy and Business Administration.

"The new Accounting Department now has two classes in session, one in the second Semester and a new class enrolled for the first Semester. The general interest which has been manifest in the new department assures its continued growth and removes all doubt that it will remain a permanent department in the institution."

BENNETT L. TOLLEFSON, a student in Pace Institute, Extension Division, in May of this year was appointed manager of the Tri-County Farm Bureau Market Association, Brunswick, Michigan. Mr. Tollefson completed the first four Semesters of the Pace Course at Ferris Institute, Big Rapids, Michigan. He is now a student in Semester E, Pace Institute, Extension Division.

JOSEPH J. CONLEY, 73a Von Woert Street, Albany, N. Y., a student in Pace Institute, Extension Division, has been transferred from the Visual Instruction Division of the State Education Department to the Audit and Finance Division of the State Highways Department, Albany, New York.

PAUL S. KASTENBAUM, who completed the Accountancy Course at Pace Institute, New York, in 1920, has been appointed an examiner in the Department of Insurance of the state of New York.

HAROLD W. ELLIS, class C152, Pace Institute, Boston, is now employed on the staff of Ward, Fisher & Co., public accountants, Providence, Rhode Island.

Problems Pertaining to Inventory

By Thomas M. Faddis, C.P.A. (Mich.)

BELOW, we have pleasure in reproducing the address on "Inventory Problems," delivered by Thomas M. Faddis, C.P.A. (Mich.), at Walsh Institute, Detroit, on October 19th. Mr. Faddis is with the Chalmers Motor Corporation of Detroit. He was formerly a student of the Pace Courses in that city. Much interest was manifested in Mr. Faddis's lecture, particularly on the part of those associated with various automobile companies.

Mr. Faddis's address follows:

Business concerns periodically pause for a time in the course of their operations in order that they may see which way the wind is blowing with respect to profits or losses. One of the principal elements in determining profits or losses is an accounting of the material on hand at the close of the accounting period. This accounting is generally termed "Inventorying." Our discussion will be concerned with the inventory problems of a manufacturing concern.

Organization

First of all comes the matter of organization. This should be given consideration fully thirty days prior to the taking of inventory. The management should designate some individual as the executive in charge of inventory. This person preferably should be the company's staff auditor or chief accountant, for the reason that he is the one who has to weave a story from the information received, and he should be in a position to insist that such information be in conformity with the possibilities of the price records and cost system. It is usually unsafe to leave the inventory entirely to the judgment and caprice of the manufacturing or stock departments.

The executive in charge, after being appointed, should chart an organization, and detail the duties of each member thereof. Meetings should be held with other responsible executives who will have a part in the job, in order to draft general instructions and to determine just what information is needed. The general instructions should be reduced to writing and distributed to all executives interested, in order that a good working knowledge of the plans may be had.

After the general instructions have been formulated and it is known just what information is desired, it is necessary to provide the necessary stationery, such as inventory tickets and tags, and record sheets, if the latter are used.

Control of Tickets

Inventory tickets should be serially numbered. The accounting department should have absolute control of the issuance of the tickets to the factory, and, for the purpose of safety, should operate a control record showing the numbers in the blocks of tickets issued, as well as the signatures of the persons receiving them. Personal responsibility for tickets should extend all the way through to the completion of the inventory.

Preparation of Plant

Before the actual taking of the inventory may properly be started, there are several necessary preparations to be made in the factory.

Receiving Room

After the close of business on the last day of the period, all material on hand in the receiving room should be written up on receiving reports dated as of the last day of the old period. This material must be completely inspected. Good material should be forwarded to the proper stockrooms, and the rejected material moved to a designated location, to be inventoried as a class by itself. This rejected material should later be returned to shippers for credit. At this point, it is well to remark that every effort should be made to return all defective material possible before the last day of the accounting period. There is a tendency, at times, to let this material accumulate before action is taken to return it to the shippers.

Shipping Room

As a general rule, no material should be shipped during inventory. As a practical proposition, however, this rule can not be absolutely enforced. Therefore, the executive in charge should insist that no shipments be made, except upon his personal approval, in order that he may know just what material is being shipped, and whether or not it has been inventoried. If the material has been inventoried, the shipping records should be annotated with the number of the inventory tickets on which it is inventoried. If not inventoried, tickets must be written from the shipping records.

Manufacturing Floors

Materials on the manufacturing floors should be completely inspected. All finished material should be sent to stock and inventoried there. Scrap material, such as turnings, borings, etc., should be sent to the scrap pile. Due to defective workmanship, there is always a certain amount of rejected material on the floors. This material should be collected in a designated place and reviewed by the inspectors, to see if any part of it may be salvaged by reoperation. That portion which can be reclaimed will be inventoried as good material and the balance consigned to the scrap pile.

Unfinished material in process must be segregated by part number and last operation performed, or by class of material. This material should be piled neatly and in accessible locations. After that has been done, the foreman in charge in each department will see that accurate counts are made, and that a temporary tag is attached to each lot showing name of the material or part, the part number, the last operation performed, and the quantity. Care should be exercised that material is not left under benches, or in other out of the way places, and hence overlooked.

Assemblies

It is desirable to have all assemblies completed. If assemblies are incomplete, the necessary material should be drawn from stock to complete them. In cases where no material is available to complete an assembly, it will have to be inventoried "as is." In other words, it will be necessary to list on the inventory ticket the missing parts. In a complicated assembly, if only a few parts have been assembled, it is better to list the individual parts assembled. In any event, care must be exercised in writing tickets, in order that the state of completion may be clearly shown.

Stockrooms

Stockrooms usually require considerable advance preparation. There is usually material to be put away, or, possibly, material in one stockroom that belongs in another. All material should be put into its proper place, and care taken that it is properly labeled as to the kind of material. In stockrooms where great quantities of small parts, such as bolts, nuts, washers, etc., are carried, the counting should be done with counting scales. The work can thus be done with greater speed and with more accuracy.

Perishable Tools—Supplies

In some plants, perishable tools are capitalized and retired through the medium of a special reserve for depreciation. I believe, however, that the trend of modern practice is to carry this item as a part of the inventory, charging them to expense as used, the same as is done with any other kind of supply. On account of this being a highly specialized division of stock-keeping, it is necessary that the inventory of tools be handled by persons having a good general knowledge along this line.

General supplies are usually carried in a separate stockroom. It is very essential that the material be clearly described, for the reason that errors in description make it exceedingly difficult to find prices.

All requisitions, which have been filled prior to the inventory, should be sent to the accounting department.

Obsolete Material

Inventories bring to light certain quantities of obsolete material. This material, so far as possible, should be removed from the current stockrooms and manufacturing floors, and should be put into a separate stockroom. Such material requires special treatment in the way of valuation, and from the standpoint of disposition, it is well to have it all in one location.

Material at Outside Plants

Practically all plants, at some time or other, have material at outside points for fabrication or for other purposes. Such material is usually carried on a Consignment Ledger. At the close of the accounting period, it is necessary that all such outstanding material be inventoried. This can be done by having the plants holding the material certify as to the quantities on hand, or by sending a representative to check the situation. In any case, inventory tickets must be written just as though the material was in the home plant.

Writing Tickets

In our plant, the inventory tickets are written in duplicate. The original is a sheet of ordinary white paper. The duplicate is a cardboard. The foreman in each department is in charge of writing the tickets and personally approves each ticket for his department. As the tickets are written, the white sheet is detached and retained by the foreman. The cardboard is placed with the material inventoried. The foreman retains the white sheets until the inventory for his department has been verified. It is the foreman's duty to see that the tickets are properly written with respect to the information called for.

Verification of Inventory

Verification of the inventory rests with the accounting department. The men from the accounting department go through the plant, department by department, checking the inventory and picking up the cardboards from the material. At the time the inventory cards are picked up, "taken" tags are attached to the material showing the numbers of the inventory cards on which the material has been inventoried. These tags serve a two-fold purpose: first, to indicate that the material has been inventoried; second, in cases of question, to identify the cards with the lots of material which they cover. Recounts are frequently demanded, in order to satisfy ourselves of the character of the original counting. If a department has the ear-marks of having been handled in a slip-shod manner, a complete recount may be insisted upon.

After the cardboards have been picked up, they are arranged in numerical order and checked by number with the white sheets retained by the foreman. If any cards are missing, it is the duty of the foreman to make a search for them. If the missing cards can not be located after a thorough search, the material is located by reference to the white sheets and duplicate cards written.

Review in Accounting Department

After a department is completely verified, the white sheets are turned over to the stock office, and the cardboards are forwarded to the accounting department. The cardboards are then arranged in numerical order, so as to make a final check of the entire plant inventory for any missing tickets. Each complete series of numbers is checked off the control register to indicate that they have been accounted for.

At this point, the tickets are carefully examined to see that they are complete in descriptive detail, and that the units of measurement are consistent with the material covered.

Classification of Inventory

In order to be truly expressive, an inventory should be divided into certain material groups or classifications. In our plant, a division is made into about fifty groups, such as finished parts, parts in process, rough parts, raw materials, tools, supplies, etc. The grouping is a matter depending on the conditions in each plant, particularly with respect to the divisions carried in the Factory Ledger, or to the wishes of the management.

Valuations

The matter of valuation is one of the most important of all phases of inventory effort. In the days before the war, inventories were generally priced on the basis of cost. The question of whether material was valued on the basis of the highest or lowest prices on record, or on average prices, unfortunately, often depended, to some extent, on what use the management desired to make of the Balance Sheet and Profit and Loss Statement. If it seemed desirable to present favorable results to the stockholders and the bankers, the pricing was likely to be done on an optimistic basis. If, as sometimes happened, there was a scheme on foot to discourage stockholders, the inventory would be priced on the lowest possible basis, thereby creating operating losses. The losses would tend to shake the confidence of the stockholders, and cause many of them to sell their holdings at a sacrifice.

The advent of the Income and Excess-Profits Taxes changed, almost entirely, the view-point of business men on valuation of their inventories. The Government adopted the regulation that valuations should be based upon cost, or cost or market value, whichever was lower. This rule, generally speaking, is applied to such items as raw material; standard purchased parts, such as bolts, nuts, and cotter pins; commercial standard perishable tools; and what are commonly known as factory supplies.

The matter of obtaining market prices may be somewhat difficult, as it generally requires sending out inquiries to vendors for their latest quotations. This should be done about a month before the close of the accounting period, so as to be well prepared for pricing as soon as the inventory is complete. Purchase orders issued during the last thirty days of the period are considered good authority on the material covered.

Some authorities contend that the market-price theory should apply also to work-in-process. This is an involved proposition for the reason that, in addition to the re-valuation of the material, a market price must be established on labor. My personal view is, that work-in-process should be valued on the basis of latest cost. If it is desired to take advantage of the prevailing market value of labor, it surely must be established from the pay-roll records, between the date of the latest recorded costs and the close of the accounting period, that a general decline in labor is an actual fact and not mere speculation. It must be presumed that plants are acquainted with the trend of labor rates, and that the labor curve in each plant is in line with current conditions.

The matter of valuations on obsolete materials is largely one of judgment, depending somewhat upon the nature of the business. I believe, however, that, as a general proposition, such material, if it can serve no useful purpose in current production, should be valued as scrap. It is a good idea to play safe in this respect.

Recording

The matter of final presentation of the inventory is a very important one. Some firms go no further than to price and extend the tickets, arranging them in the desired groups, and prepare a summary from adding-machine tapes for presentation to the management.

Our company, however, demands that the inventory be presented in detail on typewritten sheets, prefaced with a summary constructed according to the required classifications. The sheets, after being checked and all corrections made, are arranged in the order of the established grouping and numbered consecutively. Advance summaries are presented to the management for approval. After approval has been received, the sheets are sent to the bookbinders to be made into a bound book. This puts the finishing touches on the inventory. It is a satisfaction to feel that the inventory, as presented, is a job well done, which, by its very appearance, invites confidence in its integrity.

WHAT is the meaning of the term "contributory negligence" as used in the rule that "the doctrine of *contributory negligence* does not prevent recovery by the insured under a contract of insurance"?

Answer:

It is a general rule that every person must so conduct himself as not by his negligence to injure another in his person or property, and if by such negligent conduct another is injured, the wrongdoer must respond in damages to the injured person. To this general rule there are some qualifications, one of which is, that the injured person can not recover if his own negligence contributed to the injury—such negligence of the injured person being called "contributory negligence." A good example is *Railroad Co.* v. *Freeman*, 174 U. S. 379, which was an action to recover damages from a railroad company by reason of a freight train having struck a horse-drawn vehicle at a crossing, killing the driver. It was shown that the train-crew operated the train negligently; but it also appeared that the driver failed to look and listen at the crossing, this being such contributory negligence as would prevent a recovery. The rule of insurance law is, that negligence of the insured (not amounting to a fraud) which contributes to a loss does not relieve the insurer of liability. Of course, this rule does not govern where the policy makes negligence by the insured an excepted peril.

The Question and Answer Department

This Department does not publish answers to all the questions received, but only to those which are deemed to be of general interest to readers of The Pace Student. A communication, in order to receive attention, must contain the name and the address of the person asking the question.

I WOULD like to know the necessary entries for the General Ledger when bonds are issued. For instance, a certain real-estate company is issuing first-mortgage, 7 per cent. bonds, amounting in the aggregate to $500,000, redeemable in twenty years or before maturity at 103 per cent. of par value. Interest payable semi-annually. The bonds are in denominations of $100, $500, and $1,000. They are registered bonds with bearer coupons attached. Security: real estate of the town. A certain local bank acted as trustee.

I have a bondholders subsidiary Ledger, bond register, cards, and all the necessary books and papers, but I don't know just what entry to pass when these bonds are put in the market for sale.

Answer:

You do not state whether the bonds are sold at par, at a premium, or at a discount, whether they are sold for a lump sum or whether they are sold in instalments, nor whether they are sold to the general public or to a syndicate or brokerage house. In answering your letter, we shall assume that they are sold to the general public.

If the bonds are sold at par, the entry is as follows:

CASH	$xx	
To BONDS PAYABLE		$xx
For sale of bonds at par.		

If the bonds are sold at a discount, the entry is as follows:

CASH	$xx	
DISCOUNT ON BONDS PAYABLE	xx	
To BONDS PAYABLE		$xx
For sale of bonds at a discount.		

If the bonds are sold at a premium, the entry is as follows:

CASH	$xx	
To BONDS PAYABLE		$xx
PREMIUM ON BONDS PAYABLE		xx
For sale of bonds at a premium.		

If the bonds are sold on the instalment plan, the debit, instead of being to Cash Account, would be partly to Cash (for the amount of cash received as a down payment) and the remainder to an Accounts Receivable Control Account which might be called Bondholders Subscription Account. As the bondholders make payment on their subscriptions at subsequent dates, Cash Account would be debited and Bondholders Subscription Account would be credited.

If the bonds are to be sold on the instalment plan, it is probable that the bonds will not be isuued until payments have been made in full. Accordingly, instead of crediting Bonds Payable Account, a credit may be made to an account which may be entitled Subscriptions to Bonds Payable. When a subscription is paid in full and the bond itself is issued, entry may be passed transferring the amount from Subscriptions to Bonds Payable Account to Bonds Payable Account. The entry would be a debit to the former and a credit to the latter.

The Discount or Premium Account (if either of these is raised) would be transferred to Profit and Loss annually, a proper proportion being written off each year over the life of the bonds. The amount not written off at the end of any particular year would be carried on the books as a deferred charge or as a deferred credit.

You will, of course, understand that because of the lack of information, we can not do more than merely to outline a general procedure. Provisions of the bond or trust deed, with respect to method of flotation and the like, may require a modification of the entries we have presented.

AS bookkeeper for a corporation, I find in the display of Assets and Liabilities a *debit* balance in the Surplus Account, presumably set up at opening by the gentleman employed for that purpose. Why this method should have been adopted, I am unable to state; inasmuch as a Surplus Account represents profits or undivided earnings, it would appear to me that this might be satisfactorily adjusted by setting up (as a distinct item) a Good-will Account, employing the amount therein originally opened up in the Surplus, and so giving the subsequent Surplus Account the proper appearing *credit* aspect.

The corporation in question is a "close" organization, the entire issue of stock being controlled exclusively by three members of a family and formed by the incorporation of a partnership. My knowledge of corporation principles is limited, therefore, may I inquire as to my rights in proposing to the owners this change in the record? The State Department (office of corporations) advises that this may be done by filing petitions, while the Federal representative rejects the move as contrary to law, and liable to result in endless controversy with the powers that be. As far as results are concerned, the books will not display a change of any description. What I seek is merely a change of title, transferring the original Surplus Account to a Good-will Account, opening up Surplus Account for net profits only and the annual distribution of dividends, thereby displaying the Surplus Account (howsoever small) as a credit balance.

Answer:

The actual conditions may be stated as follows:

Balance Sheet at Opening of Books:

Cash on Hand	$ 488.81	$........
Cash in Bank	3,480.18	....
Auto and Team Equipment	2,585.00	....
Good Accounts Receivable	13,559.28	....
Bad and Doubtful Accounts	1,558.53	....
Capital Stock	....	50,000.00
Fixtures and Equipment	3,185.00	....
Merchandise Inventory	19,450.34	....
Surplus	14,978.65	....
Accounts Payable	....	9,285.79
	$59,285.79	$59,285.79

Balance Sheet One Year Later

Cash on Hand	$ 168.62	$........
Cash in Bank	1,957.77	....
Auto and Team Equipment	3,238.25	....
Good Accounts Receivable	18,069.75	....
Bad and Doubtful Accounts	1,300.64	....
Capital Stock	....	50,000.00
Fixtures and Equipment	3,025.75	....
Merchandise Inventory	18,364.57	....
Surplus	13,112.22	....
Accounts Payable	....	9,237.57
	$59,237.57	$59,237.57

Upon noting the decrease of Surplus Account, it might be natural to assume that eventually the credits for net profits to Surplus would convert the account to its proper status. Such would be the natural result but for the annual withdrawal of the greater part of earnings in the form of dividends.

Bad and Doubtful Accounts, as presented, are really a part of Accounts Receivable, but are set apart for purposes of concentration on collection features; some are charged off annually, but the balance remain as assets until proved hopeless.

It appears that your corporation is merely the conversion of a partnership into a corporation. $50,000 of stock in the corporation was given in payment of the partnership's going business. If the directors of the corporation have authorized this payment of stock in consideration of the partnership's business, including good-will and reputation, then the original debit to Surplus Account of $14,978.65 should have been set up in a Good-will Account. In our judgment, it was not proper to have set up this amount as a debit to Surplus Account—in other words, as a deficit—since a corporation can not start business with a deficit and since the amount presumably represents the excess value of the business over and above the amount of assets heretofore recorded on the partnership books.

DURING the early part of 1921, we contracted to purchase 250,000 feet of lumber at $100 per thousand, all of which must be taken. It was understood and agreed that delivery was to be made to us on the premises where the lumber was piled, we agreeing to remove it therefrom at the time of payment.

At December 31, 1921, 190,000 feet had not been accepted by us. In accordance with our contract, we eventually must purchase it for $19,000.00.

The actual market value, as at December 31, 1921, was $7,600.00, which makes a loss of $11,400, providing the market does not go back to cost before we dispose of it.

We feel that the loss should be prorated over the next eighteen months (1922–1923), this being the estimated time required in which to take over the entire stock. We should like to know the best and advised accounting procedure to handle this loss, so that current operations will wipe out some of this loss. Is there a method which can apply?

Answer:

Apparently, the contract you made is a contract to purchase and not the purchase itself—purchases apparently being consummated at the time of delivery of the lumber. Accordingly, we do not believe that you should include the lumber in your inventory at December 31, 1921, nor should you set up any liability for it. On your Balance Sheet, however, it will be well to append a footnote to the effect that you have a contingent liability of $19,000. That this lumber is not an asset of your own and should not be set up, will be apparent from the fact that if the lumber were to burn up before delivery was made to you, the person from whom you bought the lumber would have to stand the loss.

Since the lumber does not belong to you, it would be incorrect to take in, at time of closing—December 31, 1921—as an actual loss, the drop in market value from $19,000 to $7,600. This being so, you will see that you can prorate the loss over the time in which the stock will be sold by the ordinary profit and loss method—that is, during 1922 and 1923, when you buy lumber at $100 per thousand and sell it at $40 per thousand, you will charge Purchases $100 and credit Sales $40 for each 1000 feet. The net loss ($60 per thousand) will, of course, show up in your Profit and Loss Account at the time of closing the books for the year 1922 or 1923.

Use the Luncheon Hour

MOST business offices allow their employees an hour for lunch. It is interesting to note the different ways in which different people utilize this time.

An executive of my acquaintance usually takes a light lunch at noon, and, on pleasant days, spends the rest of his time walking around the streets. He does not walk merely for the exercise, although that certainly is good for him. He studies people. He studies window displays. Every noon he picks up some information of value to him in his business. He sees what other people are doing, and gets ideas for his own business.

He makes his lunch hour a fact-gathering period, one that he cashes in on in his own work.

January is a great month in which to start things, but don't forget the duties of December—the month when accounts, personal, as well as financial, must be closed, and the profit or loss determined.

Test a letter by its results—unproductive letters are expensive at any cost.

New Members Admitted to American Institute of Accountants

MANY new members were admitted to the American Institute of Accountants, either as full members or as associates, at the annual meeting held in Chicago, on September 18th. It is interesting to note that Pace graduates and students constitute approximately 15 per cent. of the men who were thus admitted to membership. Among the former Pace students may be mentioned: Raymond C. Reik, Baltimore; Charles B. Coultaus, New York; Richard Fitz-Gerald, Detroit; John J. Helmus, New York; Caddie H. Kinard, El Dorado, Ark.; Frederick M. Schaeberle, New York; Albert L. Swearingen, Cleveland; William C. Heaton, New York; Hugh L. Patch, Cleveland; Richard D. Seamans, Boston; Emil T. Weiler, New York.

Raymond C. Reik is a graduate of Baltimore Pace Institute, a certified public accountant of Maryland, and a member of the Maryland bar. Mr. Reik has been a member of the Board of C.P.A. examiners for the state of Maryland since 1920. At present, he is associate manager of the Baltimore office of Haskins & Sells, certified public accountants.

Charles B. Coultaus is a certified public accountant of New York state and is now with Lingley, Baird & Dixon, public accountants, New York City. Mr. Coultaus was a student of the Pace Course some years ago in Brooklyn.

Richard Fitz-Gerald was graduated from the Pace Course in New York City, in 1910. He is a certified public accountant of New York state, and, at the present time, is resident manager of the Detroit office of Lybrand, Ross Brothers & Montgomery, accountants, New York City.

John J. Helmus, who was graduated from the Pace Course in Brooklyn, in 1915, is a certified public accountant of New York state, and is at present engaged in public practice in New York City.

Frederick M. Schaeberle is a graduate of the University of Michigan, class of 1907, and of the Pace Courses in New York City, in 1912. He is a certified public accountant of Ohio, and is, at the present time, a member of the firm of Pace & Pace, New York City.

Albert L. Swearingen is a certified public accountant of Ohio. He was graduated several years ago from the Pace Course in Cleveland, Ohio. He is a partner of Nau, Rusk & Swearingen, public accountants, of Cleveland, Ohio, and New York City.

William C. Heaton is a former student of the Pace Courses in Brooklyn. He holds the degree of certified public accountant in New Jersey, and is now engaged in professional practice as a member of the firm of Heaton & Worfolk, 9 East 46 Street, New York City.

Hugh L. Patch was graduated in 1914 from the Pace Course in Cleveland, Ohio. He is a certified public accountant of Ohio, and is, at the present time, a senior accountant in the Cleveland office of Haskins & Sells.

Richard D. Seamans is a former student of Pace Institute, Boston. He is a certified public accountant of Massachusetts, and is at present with Harvey Chase & Company, certified public accountants (Mass.), Boston.

Emil T. Weiler, who passed the final examinations in Pace Institute, New York, in 1919, is a certified public accountant of New York state. He is engaged in professional practice in New York City.

Caddie H. Kinard was graduated from Pace Institute, Extension Division, in 1917. He is a certified public accountant of Arkansas, and is engaged in professional practice in Phoenix, Arizona.

J. EDWARD DOWNES, JR., Semester D-408, Pace Institute, Boston, through the Placement Division of the school, has accepted employment in the Cost Department of the Massachusetts Chocolate Company, Boston, Mass.

MARWICK, MITCHELL & COMPANY, accountants and auditors, announce that, on October 1, 1922, George W. Hofford, C.P.A., was admitted to partnership in the firm. Mr. Hofford will continue to make his headquarters at the Dallas office of Marwick, Mitchell & Company.

ANDREW NELSON, who was graduated from Pace Institu e, New York, in 1919, is now a supervising senior accountant on the staff of D. W. Harris & Company, chartered accountants, 61 Broadway, New York City. Mr. Nelson was formerly controller and assistant treasurer of Reese Hutchison, Inc., New York.